Supreme Court, U. S.
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IN THE

# Supreme Court of the United States

OCTOBER TERM, 1979

NO. 79-1533

W. R. GRACE & CO., INC., a corporation,
*Petitioner,*

vs.

E-T INDUSTRIES, INC., and PYRAMID ENTERPRISES,
*Respondents.*

* * *

W. R. GRACE & CO., INC., a corporation,
*Petitioner,*

vs.

WESTERN U.S. INDUSTRIES, INC., a corporation,
*Respondent.*

**ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT**

## BRIEF OF RESPONDENT WESTERN U.S. INDUSTRIES, INC. IN OPPOSITION

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## BRIEF OF RESPONDENT WESTERN U.S. INDUSTRIES, INC. IN OPPOSITION

Respondent Western U.S. Industries, Inc. ("Western") respectfully requests that this Court deny the Petition for a Writ of Certiorari to review the judgment and opinion of the United States Court of Appeals for the Ninth Circuit in these consolidated cases.

## OPINIONS BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit, reported at 608 F.2d 1214 (1979), appears in the Appendix to the Petition at 24.[1] The opinion of the United States District Court for the Central District of California, reported unofficially at 187 U.S.P.Q. 40 (1975), appears in the Appendix to the Petition at 6.

## JURISDICTION

The judgment and opinion of the United States Court of Appeals for the Ninth Circuit was entered on October 9, 1979. A petition for rehearing and suggestion for hearing *en banc* was denied by the Court of Appeals on December 26, 1979, and the petition herein was filed within 90 days of that date. Petitioners have invoked this Court's jurisdiction under 28 U.S.C. § 1254(1).

## QUESTIONS PRESENTED

Respondent Western objects to the Petitioner's statement of the Questions Presented. As is argued below, the Petitioner has misstated the basis for the Court of Appeals' decision, and the questions set forth in the Petition are not raised in this case.

## STATEMENT OF THE CASE

The Petitioner's summary description of the opinion of the Court of Appeals for the Ninth Circuit in this case is incomplete and inaccurate in several important respects. The Petitioner has omitted mentioning facts found by the District Court on which the Court of Appeals relied in reaching its decision. The history

[1] Hereinafter, citations to the opinion below will be given as "608 F.2d at ...., Petition at A....."



of the efforts of Petitioner W. R. Grace & Co. ("Grace") to have a wheel design patent issued is crucial to an understanding of the Ninth Circuit's decision.

After its initial patent application had been rejected, Grace responded by submitting sales figures to the Patent Office in an effort to show that its wheel design had achieved commercial success. The patent examiner again rejected the application, stating that while commercial success of a design might be relevant to patentability in close cases, the apparent sales success of Grace's wheel might be explained by factors other than novelty of design. 608 F.2d at 1216, Petition at A 25-26.

On receiving this second rejection, Grace again responded. The materials submitted by Grace consisted of (1) five affidavits from distributors of Grace's wheel, asserting that these distributors had "no particular advertising campaign as such" for the wheel, and (2) an affidavit from Floyd Merritt, president of Grace's wheel division, stating that "[o]ur major advertising so far has been a one-page ad in *Car Craft*, when we first offered the Wire Mag wheel, in 1972." 608 F.2d at 1216, Petition at A 26. On the basis of these materials, the patent examiner reversed his prior decisions and allowed the patent to issue. 608 F.2d at 1217, Petition at A 27.

The trial court found that the Merritt affidavit was false, and the Ninth Circuit affirmed that holding. The affidavit claimed that one insignificant ad had been purchased when in fact eighteen different ads had been placed in various magazines, several of which received circulation of over 600,000. 608 F.2d at 1216-17, Petition at A 26-27.

The Petitioner's statement of the case omits all reference to the legal standard applied by the Court of Appeals in determining that submission of the Merritt affidavit to the Patent Office constituted inequitable conduct such as would bar enforcement of the patent. The Court of Appeals' opinion relies on prior Ninth Circuit authority for the proposition that fraud on the Patent Office is shown where an applicant engaged in a

" 'course of conduct [which] reveals a calculated recklessness about the truth.' " 608 F.2d at 1218, Petition at A 31, *quoting Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288, 297 (9th Cir. 1969). Applying that standard of conduct to the facts found by the trial court, the court below held that "Grace clearly must answer for intentional or reckless misrepresentation as a matter of law," and denied enforcement of the patent. 608 F.2d at 1218, Petition at A 32.

## REASONS FOR DENYING THE WRIT

A Writ should not issue in this case because (1) the holding of the court below is not correctly stated by Petitioner; (2) the decision of the Ninth Circuit is fully in accord with the precedent of this Court and of other circuits; and (3) Petitioner has presented no argument whatsoever in support of its purported second "Question Presented."

### 1. Petitioner Misstates the Holding of the Court Below.

The Petitioner has misstated the basis of the Ninth Circuit's decision. The Court of Appeals did not apply a strict liability standard, as petitioner claims, but rather determined, based on the trial court's findings of fact, that Grace's conduct in making false representations to the Patent Office was intentional or at least reckless.

The first question framed by Grace characterizes the Ninth Circuit's opinion as holding that a patent could be held unenforceable where "none of the corporation's agents or employees . . . acted in bad faith or even with calculated recklessness." Brief of Petitioner at 2. This was not the standard applied. The Court of Appeals focused on the conduct of Grace, the actual patent holder, and considered Grace's statement to the Patent Office that its advertising had consisted of only one ad, in contrast with the trial court's



finding that Grace had made significant advertising expenditures. Based on these facts, the Court of Appeals concluded that Grace clearly must answer for intentional or reckless misrepresentation as a matter of law." 608 F.2d at 1218, Petition at A 32. The opinion of the court below does not even hint at a strict liability standard, but rather follows *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288, 297 (9th Cir. 1969), in holding that fraud on the Patent Office is established when the applicant's "course of conduct . . . reveals a calculated recklessness about the truth." 608 F.2d at 1218, Petition at A 31. While Grace might dispute the correctness of the Court of Appeal's application of the intentional or reckless misconduct standard to the facts of this case, such a contention goes only to the correctness of this case alone and is not a question worthy of review on a Writ of Certiorari.

Moreover, the holding of the court below should be placed in the context of the patent's having been twice rejected and where the statements found false were the sole basis on which the company was seeking a reversal by the Patent Office. The courts have generally placed a stricter burden of accuracy on the applicant after rejection since there is no basis for the company not taking special care on the narrow factual issues on which reversal is sought. *See, e.g., Monsanto Co. v. Rohm & Haas Co.*, 456 F.2d 592, 599 (3d Cir.), *cert. denied*, 407 U.S. 934 (1972); *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 428 F.2d 555, 565-66 (5th Cir.), *cert. denied*, 400 U.S. 956 (1970).

### 2. The Decision of the Court Below Is In Accord with the Precedent of This Court and of Other Circuits.

The Petitioner argues that the decision of the court below is in conflict with the opinion of the Eighth Circuit in *Pfizer, Inc. v. International Rectifier Corp.*, 538 F.2d 180 (8th Cir. 1976), *cert. denied*, 429 U.S. 1040 (1977). As stated above, however, the standard for fraud applied by the Ninth Circuit in this case requires at least reckless conduct. This is fully consistent with

the legal standards set forth by the Eighth Circuit. In *Pfizer* the court required that "the misconduct must be accompanied by 'some element of wrongfulness, willfulness, or bad faith.'" *Id.* at 186, *quoting Parker v. Motorola, Inc.*, 524 F.2d 518, 535 (5th Cir. 1975), *cert. denied*, 425 U.S. 975 (1976). The "element of wrongfulness" required by the Ninth Circuit is recklessness concerning the truth of the statements made.

Far from being in conflict with Eighth Circuit authority, the decision of the court below relies on an Eighth Circuit decision, *Acme Precision Products, Inc. v. American Alloys Corp.*, 422 F.2d 1395 (8th Cir. 1970), as precedent for inputing Grace's employees' knowledge of the magazine ads and other promotional materials to Grace itself, thereby making Grace's misrepresentations at least reckless if not intentional. 608 F.2d at 1219, Petition at A 32. In *Acme Precision Products,* the Eighth Circuit applied the "well settled principle that knowledge of officers and key employees of a corporation, obtained while acting in the course of their employment and within the scope of their authority, is imputed to the corporation itself," in holding that a corporation's omission of key facts known to one of its former employees constituted fraud on the Patent Office. 422 F.2d at 1398, 1398-1400.

The decision of the court below is in accord with the decisions of this Court, and follows a long line of cases from other circuits. In describing the type of conduct which should lead a court to decline to enforce a patent, this Court has specifically rejected an overly rigid formulation, referring instead to "[a]ny willful act . . . which rightfully can be said to transgress equitable standards of conduct. . . ." *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 815 (1945). Given this mandate, the courts of the various circuits have applied flexible standards of conduct, but have consistently refused to enforce patents obtained by misrepresentations which are intentional or reckless. *See, e.g., True Temper Corp. v. CF & I Steel Corp*, 601 F.2d 495 (10th Cir. 1979) (enforcement of patent denied based on



finding of recklessness or gross negligence relating to nondisclosure of material testing information); *International Telephone & Telegraph Corp. v. Raychem Corp.*, 538 F.2d 453, 461 (1st Cir.), *cert. denied*, 429 U.S. 886 (1976) (some element of wrongful conduct—intentional misrepresentation or inequitable, reckless, or grossly negligent conduct—is a necessary predicate to rendering a patent unenforceable in the courts); *Monolith Portland Midwest Co. v. Kaiser Aluminum Chemical Corp.*, 407 F.2d 288 (9th Cir. 1969) (fraud on the Patent Office may be found where applicant's course of conduct reveals a calculated recklessness about the truth); *A. H. Emery Co. v. Marcan Products Corp.*, 389 F.2d 11, 17-18 (2d Cir.), *cert. denied*, 393 U.S. 835 (1968) (inventor's reckless conduct in signing oath required by Patent Office would not be condoned in a suit for patent infringement); *Xerox Corp. v. Dennison Manufacturing Co.*, 322 F.Supp. 963, 969 (S.D.N.Y. 1971) (enforcement of patent should be barred when applicant is guilty of fraud, willfulness or recklessness indicating a disregard for his duty of frankness).

The legal principles applied by the Ninth Circuit comport with precedent of this Court, and do not conflict with the law of other circuits.[2]

### 3. Petitioner Has Presented No Argument Whatsoever In Support Of The Purported Second "Question Presented."

Petitioner presents no argument whatsoever in support of its request for a Writ of Certiorari on the second issue it raises, and the question as stated has no relation at all to the Ninth

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[2] Petitioner also contends that the Court of Appeals' decision is in conflict with a Patent Office regulation, 37 C.F.R. § 1.56(a). Brief of Petitioner at 10. That regulation, however, was first effective on March 1, 1977, and therefore cannot be applied as a standard to judge Grace's conduct in 1973, when the Merritt affidavit was submitted. Moreover, the regulation was intended as a codification of prior case law. *See True Temper Corp. v. CF&I Steel Corp.*, 601 F.2d 495, 504 n.9 (10th Cir. 1979).

Circuit's opinion. Petitioner's second "Question Presented" refers to the enforceability of a patent when information which "would not have automatically established the patent's invalidity" is omitted from statements to the Patent Office. In this case, however, false information about advertising was affirmatively submitted, and as a result the patent examiner reversed his earlier ruling concerning patentability. The Petitioner's second asserted question for review simply does not exist within the context of the decision below.

## CONCLUSION

For the reasons stated above, Respondent Western respectfully requests this Court to deny the Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

DATED: April 25, 1980

Respectfully submitted,

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